GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Special Session
Fiscal Note 2009 Biennium

Bill #	HB0003	**Title:**	Tax Incentives for Energy Development
Primary Sponsor:	Llew Jones	**Status:**	As Amended on Second Reading, First House

- ☑ Significant Local Gov Impact
- ☑ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☑ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$2,500	$0	$0	$0
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	$72,000	($460,169)	($460,169)
State Special Revenue	$0	$4,600	($28,852)	($28,852)
Net Impact-General Fund Balance	($2,500)	$72,000	($460,169)	($460,169)

Description of fiscal impact:

This bill creates a new property class, taxed at 3%, for certain types of energy-related property, provides for a temporary abatement of property taxes on certain types of energy-related property, and provides a property tax exemption for land adjacent to new electricity transmission lines. The net effect of these provisions will be to reduce state revenue by about $0.5 million in FY 2010 and FY 2011.

FISCAL ANALYSIS

Assumptions:

This bill is intended to provide incentives for investments in certain types of property. If successful, these incentives will result in additional property being constructed and taxes being collected on property that would not exist without the incentives. Tax incentives may also result in lower taxes being paid on existing property or on new property that would have been constructed without the incentives. To avoid speculation about the effects of incentives on investment decisions, the fiscal analysis section of this fiscal note examines the effects of this bill only on property that is in the development process or can reasonably be interpreted as being included in the HJR 2 property tax revenue estimates. Potential impacts of additional property that might be constructed in response to incentives are discussed in the long-range impacts section.

Property Tax Abatement for Certain New Energy Development Property

1. Sections one through six of this bill would provide for abatement of 50% of the property taxes on property for which construction commences after June 1, 2007 and that is placed in service after June 30, 2007 for the purposes of carbon dioxide sequestration; renewable energy production, transmission, and transportation; coal liquefaction and gasification; clean coal research and development; and renewable energy research and development. The amended bill also includes converter stations that transfer electrical energy between two interconnected grids that are constructed after June 1, 2007. In order to qualify for the abatement, prevailing heavy construction wage rates must be paid. The tax abatement is for ten years after the facility commences operation and up to a four year construction period. In the case of research and development facilities, the abatement begins when the research and development equipment is purchased. In the case of research and development facilities, the abatement begins when the research and development equipment is purchased, but may not exceed 14 years.
2. The Department of Environmental Quality (DEQ) is charged with certifying that the property qualifies for the abatement. The DEQ and the Department of Revenue (DOR) are granted rulemaking authority to administer the provisions of this act.
3. Section seven of this bill creates a new class of property, class 15 with a taxable rate of 3%. All the property in this act is placed in class 15, except for the property that is placed in (existing) class 14, which also has a taxable rate of 3%.
4. Section nine of this bill amends 15-6-141, MCA, (class 9 property) to make the language of this statute consistent with the changes to 15-6-157, MCA, (class 14 property).
5. Section ten of this bill amends 15-6-157, MCA, (class 14 property). Under current law class 14 property consists of wind generation property. This bill adds the following types of facilities to class 14: biodiesel production, biogas production, biomass gasification, coal gasification, ethanol production, geothermal, integrated gasification combined cycle, renewable energy manufacturing, natural gas combined cycle, high voltage direct current transmission lines, converter stations that transfer electrical energy between two interconnected grids, electric transmission lines used at least 90% for the transmission of electricity generated at facilities included in this act.
6. Information from the DEQ indicates that investment in new biodiesel and ethanol facilities that would be covered by this act will be $0.1 million in 2008, $367.9 million in 2009, and $368.1 million in 2010. The HJR2 property tax assumptions imply growth of almost $2 billion per year of market value in the combination of classes 4 and 8. These projects therefore can reasonably be assumed to be included in the HJR 2 property tax projections. The second row shows the taxable value of these facilities under current law, assuming that 90% of the value is equipment in class 8 and 10% is real estate in class 4. The next three rows show expected state and local property taxes under current law. The next four rows show taxable value with all property of these facilities in class 14 with a 50% abatement and the resulting state and local property taxes. The last three rows show the differences in state and local property taxes due to Sections 1 through 6.
7. Information from the DEQ indicates that investment in new biodiesel and ethanol facilities that would be covered by this act will be $0.1 million in calendar year 2008, $367.9 million in calendar year 2009, and $368.1 million in calendar year 2010. The HJR 2 property tax assumptions imply growth of almost $2 billion per year of market value in the combination of class 4 and class 8. These projects are assumed to be included in the HJR 2 property tax projections. The second row shows the taxable value of these facilities under current law, assuming that 90% of the value is equipment in class 8 and 10% of the value is real estate in class 4. The next three rows show expected state and local property taxes under current law. The next four rows show taxable value with all property of these facilities in class 14 with a 50%

abatement and the resulting state and local property taxes. The last three rows show the differences in state and local property taxes due to sections 1 through 6.

Expected Facilities Changed From Class 8 and 4 to Class 14 and Given Abatement

	2008	2009	2010
Market Value ($ million)	0.100	367.900	368.010
Taxable Value 90% Class 8 & 10% Class 4	0.003	11.041	11.044
Tax ($ million) on			
State 95 mills (general fund)	0.000	1.049	1.049
State 6 mills (university system)	0.000	0.066	0.066
Local 364 mills (statewide rural average)	0.001	4.019	4.020
Taxable Value 100% Class 14	0.003	11.037	11.040
Tax ($ million) with 50% abatement on			
State 95 mills (general fund)	0.000	0.524	0.524
State 6 mills (university system)	0.000	0.033	0.033
Local 364 mills (statewide rural average)	0.001	2.009	2.009
Difference in Tax ($ million)			
State 95 mills (general fund)	0.000	-0.525	-0.525
State 6 mills (university system)	0.000	-0.033	-0.033
Local 364 mills (statewide rural average)	-0.001	-2.010	-2.011

8. One electric transmission line that would be classified as class 14 property is expected to be built in calendar year 2008. The market value of this line is expected to be approximately $50.674 million (Draft Environmental Impact Statement for the Montana-Alberta Tie Ltd. 230-kV Transmission Line.) The HJR 2 property tax assumptions imply $66.1 million in additional market value in class 9 for calendar year 2008. Therefore, this project could reasonably be interpreted as being included in the HJR 2 projections. However, the developers of this project have stated that it will not be built in Montana if the line is taxed at the class 9 tax rate of 12%. Assuming that this is true, this bill would result in an increase in taxable value in class 14 of $0.760 million (3% x 50% x $50.674 million) beginning in calendar year 2008 and no change in class 9. Beginning in FY 2009, this would result in increased revenue of $72,000 per year (0.095 x $0.760 million) to the general fund, $4,600 per year (0.006 x $0.760 million) to the university system, and $277,000 to local governments and school districts (0.364 x $0.760 million).
9. The number of DC interties (converter stations between two interconnected grids) that might be constructed during the fiscal period covered by this fiscal note is unknown. No fiscal impact is estimated.

Tax Exemption for Land under Newly Constructed Electric Transmission Lines

10. Section eight of this bill provides for a property tax exemption for class 3 Agricultural Land and class 10 timberland within 660 feet of the center of the right-of-way of an electric transmission line of a capacity of 30 megavoltamperes or greater that is constructed after January 1, 2007. The proposed Montana-Alberta Tie transmission line is scheduled to be built in calendar year 2008. The DOR estimates that the effect of the exemption from property tax of the land adjacent to the right-of-way would be a decrease of general fund revenues of $7,169 in FY 2010 and FY 2011. The university state special revenue would be reduced by $452 in FY 2010 and FY 2011. Local government and school revenues would decrease by $31,870 in FY 2010 and FY 2011.

11. The following table combines the state and local revenue impacts from the tax abatement, exemption of land under transmission lines, and taxation of the Montana-Alberta Tie Line.

Summary of Revenue Impacts

	FY20008	FY20009	FY20010	FY20011
General Fund Revenue				
Tax Abatements			($525,000)	($525,000)
Exempt Land under Transmission Lines			($7,169)	($7,169)
New Tax Revenues from Montana-Alberta Tie		$72,000	$72,000	$72,000
		$72,000	($460,169)	($460,169)
University SSR Fund Revenue				
Tax Abatements			($33,000)	($33,000)
Exempt Land under Transmission Lines			($452)	($452)
New Tax Revenues from Montana-Alberta Tie		$4,600	$4,600	$4,600
		$4,600	($28,852)	($28,852)
Local Government Revenue				
Tax Abatements		($1,000)	($2,010,000)	($2,011,000)
Exempt Land under Transmission Lines			($31,870)	($31,870)
New Tax Revenues from Montana-Alberta Tie		$277,000	$277,000	$277,000
		$276,000	($1,764,870)	($1,765,870)

Administrative Expenses
Department of Revenue (DOR)

12. The DOR will incur a one-time general funded operating cost of $2,500 in FY 2008 for creation of new forms to administer this bill. This cost can be absorbed within existing appropriations.

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
Expenditures:				
Operating Expenses	$2,500	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$2,500			
Revenues:				
General Fund	$0	$72,000	($460,169)	($460,169)
State Special Revenue - University	$0	$4,600	($28,852)	($28,852)
TOTAL Revenues	$0	$76,600	($489,021)	($489,021)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$2,500	$72,000	($460,169)	($460,169)
State Special Revenue (02)	$0	$4,600	($28,852)	($28,852)

Effect on County or Other Local Revenues or Expenditures:

1. As shown in the table in assumption 14, county and other local government revenues will *increase* by about $0.26 million in FY 2009 and *decrease* by about $1.75 million per year.

Long-Range Impacts:

1. Some energy projects whose property taxes are affected by this bill are almost certain to be built in Montana in the future. Electricity transmission projects with combined cost of about $1 billion are being considered for calendar year 2011. Various coal conversion projects with costs between $600 million and $1 billion each are being considered. How this bill affects taxes on a particular project depends on whether it would be built without the incentives in this bill. If the project would be built without the incentives, this bill would reduce revenues below what they would have been without it. If the project would not be built without the incentives, this bill would increase revenues beyond what they would have been.
2. The following tables show the property taxes on a $1 billion electricity transmission project and a $1 billion coal conversion project under current law and under this bill.

Taxes from Hypothetical $1 Billion Transmission Project
($ million)

	Tax Rate	Taxable Value	State 95 mills	State 6 mills	Local 364 mills
Current Law - Class 9	12%	$120.00	$11.40	$0.72	$43.68
Class 15 & 50% Abatement	3%	$30.00	$1.43	$0.09	$5.46

Taxes From Hypothetical $1 Billion Coal Conversion Project
($ million)

	Tax Rate	Taxable Value	State 95 mills	State 6 mills	Local 364 mills
Current Law	3%	$30.00	$2.85	$0.18	$10.92
50% Abatement	3%	$30.00	$1.43	$0.09	$5.46

3. The following table shows the impacts of this bill on state and local property taxes if these projects *would not* be built without the incentives in this bill.

Revenue Impact if Projects Would Not Be Built Without Incentives ($ million)

	State 95 mills	State 6 mills	Local 364 mills
Transmission Project - Class 15 & Abatement	$1.43	$0.09	$5.46
Coal Conversion Project - 50% Abatement	$1.43	$0.09	$5.46

4. This table shows the impacts of this bill on state and local property taxes if these projects *would* be built without the incentives in this bill.

Revenue Impact if Projects Would Be Built Without Incentives ($ million)

	State 95 mills	State 6 mills	Local 364 mills
Transmission Project - Class 15 & Abatement	($9.98)	($0.63)	($38.22)
Coal Conversion Project - 50% Abatement	($1.43)	($0.09)	($5.46)

5. This bill would exempt timberland within 660 feet of any new transmission line. The amount of land exempted and the resulting revenue loss to the state and local taxing jurisdictions will grow over time as new transmission lines are built.

Sponsor's Initials *Date* *Budget Director's Initials* *Date*